COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Pricing, based upon Total Element Long-Run Incremental Costs, for Unbundled Network Elements and Combinations of Unbundled Network Elements, and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services in the Commonwealth of Massachusetts	D.T.E. 01-20 Part A (UNE Rates)

AT&T'S COMMENTS REGARDING VERIZON'S REVISED COMPLIANCE FILING, AS FILED JUNE 9 AND 12, 2003

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Introduction.

AT&T Communications of New England has identified one material error in Verizon's revised compliance filing: Verizon has failed fully to implement the Department's order to use an avoidable cost percentage of 25.51 percent for indirect expense accounts, instead of the 18.78 percent figure used in Verizon's original compliance filing.

In addition, AT&T has discovered three minor things that need to be corrected. First, Verizon has failed to reflect fully the adjusted FLC factor in its LCAM model for calculating loop costs. Second, Verizon's illustrative tariff does not accurately reflect the revised compliance costs for unbundled common local or toll transport. Third, Verizon failed to abide by the Department's specific directive to eliminate all field installation "placeholders" from its non-recurring cost model.

Argument.

I. IN SOME PARTS OF ITS REVISED COMPLIANCE FILING, VERIZON FAILED TO SUBSTITUTE A 25.51 PERCENT AVOIDABLE INDIRECT COST FACTOR FOR THE 18.78 PERCENT FIGURE PROPOSED IN VERIZON'S ORIGINAL COMPLIANCE FILING.

Verizon has not properly implemented the Department's directive regarding the percent of indirect costs that represent avoidable retail costs. In its original cost study, Verizon proposed zero percent for eleven indirect expense categories, and three distinct numbers for the other three categories. *See* D.T.E. 01-20, Part A-B, at 25. In its February 2003 compliance filing, Verizon calculated that on average 18.78 percent of direct expenses would be avoided, and it applied that 18.78 percent to all indirect costs. *Id.* The Department has now rejected that figure, and ordered Verizon instead to "use the 25.51 percent avoided discount percentage that results from [the Department's] directives," and to apply that 25.51 percent figure to Verizon's 1999 costs (instead of the 18.78 number assumed in Verizon's original compliance filing). *Id.* Verizon's "June 2003 Compliance Tracking Matrix" notes that this change, from 18.78 percent to 25.51

percent, had to be carried into its Common Overhead, Marketing, Network, and Other Support factors.

Verizon failed to do so in one key respect, which affects both the Other Support factor (Part G-6) and the Common Overhead factor (Part G-2). Both of those factors are based in part on calculations in an embedded spreadsheet used to calculate wholesale support investment carrying costs. *See* Compliance Filing, Part G-2, Tab 2, Column E, Row 8; and Part G-6, Tab 2, Column I, Row 11 (the identical spreadsheet is embedded in both places).

In Verizon's February 13, 2003, compliance filing, Verizon recognized that – under the logic of its cost studies – the 18.78 percent avoidable indirect cost factor had to be applied to the indirect support investment accounts used to derive support investment carry costs. This can be seen in the embedded book of spreadsheets referenced above in the original February compliance filing, at the tab labeled "Total VZ-East CC." For the Department's convenience, a copy of this spreadsheet tab is attached hereto as Exhibit A. It shows that in its original compliance filing Verizon applied the 18.78 percent avoidable indirect factor to the support investment accounts for land, buildings, and various kinds of equipment and furnishings.

Verizon should have changed the 18.78 percent avoidable percentage applied to these accounts to the revised 25.51 percent directed by the Department. Instead, however, Verizon set all of these entries to zero. This can be seen by looking at the same spreadsheet tab from the June 2003 revised compliance filing. For the Department's convenience, a copy of this revised tab is attached hereto as Exhibit B.

Verizon should not be permitted to change the structure or logic of its cost study at this time to eliminate the avoidable indirect cost factor applied to these support investment accounts in the February 2003 compliance filing. (For that matter, Verizon may not propose any other changes to its cost studies at this time.) Verizon should have simply substituted the 25.51

percent factor calculated by the Department every place that Verizon had used an 18.78 percent factor for avoidable retail-related costs, including here.

II. TWO SMALLER CORRECTIONS SHOULD ALSO BE MADE TO THE REVISED COMPLIANCE FILING.

A. Verizon Did Not Reflect the 65 Percent FLC Factor in the Building and Land Factors Used as Inputs to the Loop Cost Analysis Model (LCAM).

Verizon has inadvertently failed to carry the final forward-looking-to-current ("FLC") factor through to all aspects of its model. The Department rejected Verizon's initial compliance filing proposal of a 59 percent FLC factor, and instead directed Verizon to use a 65 percent FLC adjustment. *See* D.T.E. 01-20, Part A-B, at 14-15. Though Verizon generally did so, it failed to update the building and land factors used as inputs to its Loop Cost Analysis Model ("LCAM"), but instead has continued to use old building and land factors based on the 59 percent FLC.

Verizon's "June 2003 Compliance Tracking Matrix" correctly notes that the revised FLC factor affects the calculation of land and building loading factors. At the final 65 percent FLC factor, the resulting land factor is 0.0036, and the resulting building factor is 0.0923. *See* Revised June 2003 Compliance Filing, Part G-3, Workpaper 10.

However, in the revised compliance filing Verizon continued to use a land factor of 0.004 and a building factor of 0.1016 as inputs to the LCAM model. *See* Revised June 2003 Compliance Filing, Parts B-1a to B-1d, Section 5.2, Page 3 ("land ratio" and "building ratio"). But these are the land and building factors that Verizon calculated in its original compliance filing using a 59 percent FLC factor. Verizon should have replaced these factors in the LCAM with the new factors that result from applying a 65 percent FLC factor.

B. Verizon Needs to Make the Common Transport Costs In its Illustrative Tariff Match Those in its Revised Compliance Filing Cost Studies.

In its revised compliance filing, Verizon calculates the cost of unbundled local common transport to be $0.000265 per minute of use, and the cost of unbundled toll common transport to be $0.000284 per minute of use. *See* Verizon's Revised Compliance Filing, Part A. However, its illustrative tariff contains rates of $0.000715 and $0.000880 for these two items, respectively. *See* Revised Illustrative Tariff No. 17, Part M, Section 2.6.3, Page 13. The tariff needs to be corrected to be consistent with Verizon's revised cost studies.

C. Verizon Has Still Not Removed All Placeholder "Field Installation" Charges From its NRCM.

The Department ordered Verizon to remove from its non-recurring cost model ("NRCM") all field dispatch "placeholders," and instead submit a revised NRCM "that accurately reflects all the Department's directives and findings," including the directive to remove field dispatch costs from the non-recurring cost calculations. *See* D.T.E. 01-20, Part A-B, at 14-15.

Verizon did not completely do so. Verizon has filed an "NRC Rate Comparison" (in Book 1, Tab 2b, of the revised compliance filing) which correctly reflects the elimination of field installation costs from Verizon's non-recurring charges. However, in Verizon's NRCM itself, the Cost Summary tab still depicts field installation charges, as do the underlying tabs for individuals NRCs. Verizon has not complied with the Department's clear directive to submit a final NRCM that eliminates field installation charges, so that the Department and all parties have access to final NRCM that comports with the Department's directives and findings.

Conclusion.

AT&T respectfully urges the Department to direct Verizon to make the corrections to its revised compliance filing that are identified and explained above.

Respectfully submitted,

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